

# Schacht & McElroy

Robert M. Schacht  
Michael R. McElroy

Attorneys at Law

(401) 351-4100  
fax (401) 421-5696

Members of Rhode Island  
and Massachusetts Bars

21 Dryden Lane  
Post Office Box 6721  
Providence, Rhode Island 02940-6721

email: RMSchacht@aol.com  
McElroyMik@aol.com

November 13, 2006

Luly Massaro, Clerk  
RI Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

Re: Interstate Navigation Company  
Docket No. 3762

Dear Luly:

As you know, this office represents Interstate Navigation Company (Interstate).

Enclosed for filing in this matter are an original and nine copies of Interstate's Responses to the follow-up information requests of the Town of New Shoreham.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg  
In27:06-Massarol8

cc: Susan E. Linda  
Joshua Linda  
Walter E. Edge, Jr.  
Service List

**FOLLOW-UP INFORMATION REQUESTS OF THE TOWN OF NEW  
SHOREHAM**

TOWN-35-F

Please refer to the response to TOWN-35. Identify the account numbers applicable to each component of the ISHF asset purchase; e.g.:

Customer List	Account No.
Non-Compete	Account No.
Goodwill	Account No.
CPCN	Account No.
Berthing Permit	Account No.

RESPONSE: Interstate's has not yet purchased the above listed assets and therefore has not needed to complete the necessary research to identify the appropriate account numbers and has not needed to assign account numbers. When and if the closing goes through Interstate will have its regulatory accountant and its year end auditor confer and determine the appropriate accounts. If the town has already done the research on this issue, Interstate would appreciate any input that would help Interstate identify the correct account numbers in order to save ratepayer money.

Prepared by WEE

TOWN-36-F

Please refer to the response to TOWN-36. Is it Interstate's position that no depreciable plant or equipment other than the M/V Athena will be a direct cost of the high speed operation?

RESPONSE: No.

Prepared by WEE

TOWN-45-F

Please refer to the response to TOWN-45. If Interstate incurred an extraordinary expense during a reporting period, the regulatory treatment of which remains uncertain, would it expense this item, classify it as a miscellaneous deferred debit or seek accounting instructions from the Division?

RESPONSE: All three could be appropriate depending on the nature and materiality of the extraordinary expense.

Prepared by WEE

TOWN-57-F

Please refer to the response to TOWN-57. Please provide the test year and projected rate year revenue requirements associated with Interstate vehicles used in part by management for personal use.

RESPONSE: This request was forwarded to the accountant who is trying to get Interstate's May 2006 financial statements completed for the IHSF closing, the Commission, the Division, the Company and the Town. When she completes the financial statements she will pursue the answer to this data request.

Prepared by WEE

TOWN-89-F

Please refer to the response to TOWN-89. Please explain “assigned primarily” as used in this response. Explain whether the wages, benefits and related taxes for employees who work solely on high speed operations will be direct cost charged entirely to high speed operations.

RESPONSE: The use of the terms “assigned primarily” refers to crew assigned to the fast ferry that may on an emergency basis (for one shift or run) fill in on a conventional run. This could happen so that is why I stated primarily. Your second observation is correct, “employees who work solely on high speed operations will be direct costs charged entirely to high speed operations”.

Prepared by WEE

TOWN-6-F

Please refer to the response to TOWN-6. Please provide the total legal and accounting costs for the "various matters regarding IHSF." Given the Division's approval of Interstate's acquisition of IHSF's RI assets, does Interstate agree that these costs, going forward, are (a) extraordinary or (b) non-recurring? If not, please explain. If so, please explain why no adjustment for these costs has been made in estimating rate year cost of service.

RESPONSE: The total legal fees were \$131,959.23 and the accounting fees were approximately \$35,000 (please note that the accounting bills do not provide the same level of detail as the legal bills submitted to Interstate, therefore an estimate of the accounting costs relating to IHSF had to be made).

Interstate does not agree that the IHSF matters are either "extraordinary" or "non-recurring" for ratemaking purposes. Any specific individual legal and or regulatory matter could always be labeled to be as "extraordinary" or "non-recurring" but that would be an incorrect approach, because in the aggregate there are numerous individual specific legal and regulatory matters which must be handled year after year. While the individual matters may and do change, the need for and the average amount of recurring expense for legal and accounting services has not changed in the past seven years for Interstate, even though specific matters have changed. Moreover, the conventional ratepayers are receiving the entire benefit of Interstate's handling of the IHSF matters and they should therefore pay the costs. Please see the rebuttal testimony of WEE for an explanation of why there is no need for an adjustment.

Prepared by WEE

TOWN-7-F

Please refer to the response to TOWN-7. Does Interstate agree that treating the costs of the IHSF asset acquisition as a direct cost of high speed operations would reduce the cost of service for conventional operations, irrespective of whether high speed operations incurred losses?

RESPONSE: No. Moreover, the conventional ratepayers are getting the entire benefit of the acquisition and therefore they should pay the entire cost of the acquisition.

Prepared by WEE



TOWN-10-F

Please refer to the response to TOWN-10. Assuming Interstate's hypothetical that the conventional revenue requirement is reduced by an estimated rate year profit of \$150,000 from high speed operations:

- a. What type of filings would Interstate make going forward to enable the Division and Commission to review future period earnings from high speed operations?

RESPONSE: None if it is working (other than the usual annual report). Interstate would file either a conventional or fast ferry (or both) full rate filing if it is not working. See the WEE rebuttal testimony for more details.

- b. What level of detail would Interstate provide in such filings (e.g., identification of direct costs, explanation for derivation of direct costs)?

RESPONSE: Most likely the Fast Ferry P&L, but we will also accept any input from the Division and the Commission as to what information they would like to see.

- c. Would the high speed and conventional operations use the same reporting periods? and
- d. Would the high speed and conventional operations be accounted for on the same basis (e.g., accrual, cash basis)?

RESPONSE: Both yes.

- e. What would be the effect on the proposed true-up account and conventional rates if the high speed operation incurred losses in excess of the true-up account?

RESPONSE: The true-up account would be emptied and a rate filing would be made.

- f. How would future rate year estimates of high speed earnings be supported by Interstate for purposes of future conventional rate cases?

RESPONSE: Probably with Fast Ferry P&L trial balances for the test year and the rate year.

Prepared By WEE

TOWN-32-F Please refer to the response to TOWN-32. Does Interstate acknowledge that its current high speed ferry rates are not based upon an analysis of the historic or projected direct costs of Interstate's high speed ferry operations? If not, please provide any direct costs analysis conducted by or for Interstate to support the adequacy of its current rates to cover such direct costs.

RESPONSE: Appears to be the same question. Same answer. Yes.

Prepared by WEE